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A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Agriculture

*For the Two Fiscal Years Ended
June 30, 2007*

SEPTEMBER 2007

LEGISLATIVE AUDIT
DIVISION

07-21

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

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State Capitol
Helena MT 59620

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

September 2007

The Legislative Audit Committee
of the Montana State Legislature:

This is the report on our financial-compliance audit of the Montana Department of Agriculture for the two fiscal years ended June 30, 2007. The objectives of this audit include determining whether the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for each of the two fiscal years ended June 30, 2007 and documenting the status of the three recommendations from the prior audit. We also tested compliance with laws related to operations of the department.

The Department of Agriculture is organized under three divisions. The Central Services Division includes the director's office and provides accounting, fiscal management, payroll, purchasing, property control, data processing, and legal support functions for all programs in the department. The Agricultural Science Division administers agricultural programs relating to the production, manufacturing, and marketing of commodities exported from or distributed in the state. Division personnel provide technical and consultant services to consumers and agricultural producers. The Agricultural Development Division administers programs that promote Montana agriculture through market development and business assistance. Assistance is given toward commercialization of traditional as well as innovative agricultural products and processes.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial schedules and accompanying notes. We have issued a qualified opinion on the department's financial schedules as a result of an improper recording of hail insurance premiums in fiscal year 2005-06.

Hail insurance premiums are based on a crop year rather than fiscal years. Crop years are from June through August of each calendar year which spans two fiscal years. The department improperly allocated crop year 2005 premiums, resulting in an under allocation of hail insurance premium revenue to the fiscal year ended June 30, 2006. Hail insurance premiums were properly allocated for crop years 2006 and 2007, so we make no recommendations to the department in this report.

The department implemented the three audit recommendations from the prior audit report. Any issues resulting from this financial-compliance audit have been discussed with department management. The department's response to this report is on page B-1.

We thank the Director and her staff for their cooperation and assistance during the audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Tori Hunthausen".

Tori Hunthausen
Chief Deputy Legislative Auditor

APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Agriculture

Nancy K. Peterson, Director (January 2005 - June 2007)

Ron de Yong, Director (September 2007)

Kathy Seacat, Administrator, Central Services Division

Gregory H. Ames, Administrator, Agricultural Sciences Division

Joel A. Clairmont, Administrator, Agricultural Development Division

Administratively Attached Councils, Committees and Board

Agriculture Development Council

Board of Hail Insurance

Cooperative Agriculture Pest Survey Advisory Committee

Mint Committee

Montana Alfalfa Seed Committee

Montana Noxious Weed Summit Advisory Council

Montana Cherry Advisory Committee

Montana Pulse Crop Advisory Committee

Montana Organic Commodity Advisory Council

Montana Potato Advisory Committee

Noxious Weed Management Advisory Council

Wheat and Barley Committee

Pesticide Advisory Council

Noxious Weed-Seed Free Forage Advisory Council

For additional information concerning the Department of Agriculture, contact:

Ron de Yong, Director
303 North Roberts
PO Box 200201
Helena MT 59620-0201
(406) 444-3144

e-mail: agr@mt.gov



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Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2007, and 2006. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

The department made an error in the amount of hail insurance premiums recorded as revenue in fiscal year 2005-06 for the 2005 crop year. As a result, Charges for Services revenue and Budgeted Revenues & Transfers-In are understated by \$1,885,989 in the Enterprise Fund on the Schedule of Total Revenues & Transfers-In and on the Schedule of Changes in Fund Balances & Property Held in Trust respectively for the fiscal year ended June 30, 2006.

In our opinion, except for the matter discussed in the previous paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances & property held in trust of the Department of Agriculture for each of the fiscal years ended June 30, 2007, and 2006, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".
James Gillett, CPA
Deputy Legislative Auditor

August 29, 2007

MONTANA DEPARTMENT OF AGRICULTURE
 SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2006	\$ (354,140)	\$ 9,436,316	\$ 20,314	\$ 10,235,879	\$ 0	\$ 4,734,763
PROPERTY HELD IN TRUST: July 1, 2006					\$ 450,611	
ADDITIONS						
Budgeted Revenues & Transfers-In	54,459	9,197,065	3,296,330	6,603,761		
Nonbudgeted Revenues & Transfers-In	498	261,694		59		413,177
Prior Year Revenues & Transfers-In Adjustments	(1,239)	(15,856)	37,600	315		3,104
Direct Entries to Fund Balance	1,676,471	600,621				12,343
Additions to Property Held in Trust					54,990	
Total Additions	1,730,189	10,043,524	3,333,930	6,604,135	54,990	428,624
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	1,774,356	9,389,485	3,259,703	2,006,463		
Nonbudgeted Expenditures & Transfers-Out	(59,035)	479,216		2,571,588		255,592
Prior Year Expenditures & Transfers-Out Adjustments	(69,193)	(18,736)	1,547	132,115		
Reductions in Property Held in Trust					15,000	
Total Reductions	1,646,128	9,849,965	3,261,250	4,710,166	15,000	255,592
FUND BALANCE: June 30, 2007	\$ (270,079)	\$ 9,629,875	\$ 92,994	\$ 12,129,848	\$ 0	\$ 4,907,795
PROPERTY HELD IN TRUST: June 30, 2007					\$ 490,601	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund	Perman Fund
FUND BALANCE: July 1, 2005						
PROPERTY HELD IN TRUST: July 1, 2005	\$ (376,121)	\$ 8,607,020	\$ 5,263	\$ 11,511,996	\$ 0	\$ 4,790,5
ADDITIONS						
Budgeted Revenues & Transfers-In	44,497	9,122,725	2,733,895	3,421,868		
NonBudgeted Revenues & Transfers-In	319	250,233	331	144		158,6
Prior Year Revenues & Transfers-In Adjustments	596	73,621	13,669	(380)		
Direct Entries to Fund Balance	1,908,887	694,620				12,9
Additions to Property Held in Trust					156,000	
Total Additions	1,954,299	10,141,199	2,747,895	3,421,632	156,000	171,6
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	2,063,767	8,989,246	2,734,275	2,989,371		
NonBudgeted Expenditures & Transfers-Out	(74,650)	277,645		1,708,416		227,3
Prior Year Expenditures & Transfers-Out Adjustments	(56,799)	45,012	(1,425)	(38)		
Reductions in Property Held in Trust					14,639	
Total Reductions	1,932,318	9,311,903	2,732,850	4,697,749	14,639	227,3
FUND BALANCE: June 30, 2006	\$ (354,140)	\$ 9,436,316	\$ 20,314	\$ 10,235,879	\$ 0	\$ 4,734,7
PROPERTY HELD IN TRUST: June 30, 2006					\$ 450,611	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
Licenses and Permits		\$ 2,592,827			\$	2,592,827
Taxes	\$ 497	2,946,707		55		2,947,259
Charges for Services		987,990		6,033,868		7,021,858
Investment Earnings		562,130		560,798	\$ 260,906	1,383,834
Fines, Forfeits and Settlements		28,708		9,414		38,122
Sale of Documents, Merchandise and Property		10,962				10,962
Miscellaneous		36,907				36,907
Grants, Contracts, Donations and Abandonments	53,221	220,808				274,029
Other Financing Sources		2,055,864			155,375	2,211,239
Federal			\$ 3,124,806			3,124,806
Federal Indirect Cost Recoveries			209,124			209,124
Total Revenues & Transfers-In	53,718	9,442,903	3,333,930	6,604,135	416,281	19,850,967
Less: Nonbudgeted Revenues & Transfers-In	498	261,694		59	413,177	675,428
Prior Year Revenues & Transfers-In Adjustments	(1,239)	(15,856)	37,600	315	3,104	23,924
Actual Budgeted Revenues & Transfers-In	54,459	9,197,065	3,296,330	6,603,761	0	19,151,615
Estimated Revenues & Transfers-In	55,093	9,259,505	3,105,500	6,605,030		19,025,128
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (634)	\$ (62,440)	\$ 190,830	\$ (1,269)	\$ 0	\$ 126,487
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$	9,964			\$	9,964
Taxes		(39,849)		(100)		(39,949)
Charges for Services		54,315		2		54,317
Investment Earnings		25,185		(585)		24,600
Fines, Forfeits and Settlements		(5,417)		(586)		(6,003)
Sale of Documents, Merchandise and Property		(338)				(338)
Miscellaneous		(874)				(1,065)
Grants, Contracts, Donations and Abandonments	\$ (191)	(9,178)				(9,369)
Other Financing Sources	(443)	(96,248)				(96,691)
Federal			163,759			163,759
Federal Indirect Cost Recoveries			27,071			27,071
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (634)	\$ (62,440)	\$ 190,830	\$ (1,269)	\$ 0	\$ 126,487

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
Licenses and Permits		\$ 2,482,203				\$ 2,482,203
Taxes	\$ 319	3,161,744	331	\$ 118		3,162,512
Charges for Services		947,565		3,049,587		3,997,152
Investment Earnings		482,175	155	363,495	\$ 115,441	961,266
Fines, Forfeits and Settlements	215	17,152		8,432		25,799
Sale of Documents, Merchandise and Property		11,263				11,263
Miscellaneous	44,878	2,664				47,542
Grants, Contracts, Donations and Abandonments		192,283	4,800			197,083
Other Financing Sources		2,149,530			43,169	2,192,699
Federal			2,535,668			2,535,668
Federal Indirect Cost Recoveries			206,941			206,941
Total Revenues & Transfers-In	45,412	9,446,579	2,747,895	3,421,632	158,610	15,820,128
Less: Nonbudgeted Revenues & Transfers-In	319	250,233	331	144	158,610	409,637
Prior Year Revenues & Transfers-In Adjustments	596	73,621	13,669	(380)		87,506
Actual Budgeted Revenues & Transfers-In	44,497	9,122,725	2,733,895	3,421,868	0	15,322,985
Estimated Revenues & Transfers-In	44,781	9,124,023	2,101,186	3,525,050		14,795,040
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (284)	\$ (1,298)	\$ 632,709	\$ (103,182)	\$ 0	\$ 527,945

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits		\$ 13,325				\$ 13,325
Taxes	\$ (302)	4,092		\$ (100)		3,690
Charges for Services		87,391		(103,264)		(15,873)
Investment Earnings		(104)	5	169		70
Fines, Forfeits and Settlements	(285)	367		13		95
Sale of Documents, Merchandise and Property		(112)				(112)
Miscellaneous	744	(3,115)				(2,371)
Grants, Contracts, Donations and Abandonments		(1,000)				(1,000)
Other Financing Sources	(441)	(102,142)				(102,583)
Federal			591,462			591,462
Federal Indirect Cost Recoveries			41,242			41,242
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (284)	\$ (1,298)	\$ 632,709	\$ (103,182)	\$ 0	\$ 527,945

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agricultural Development Division	Agricultural Sciences Division	Central Services Division	Total
Personal Services				
Salaries	\$ 1,083,606	\$ 2,160,163	\$ 619,525	\$ 3,863,294
Hourly Wages	94,155	69,246		163,401
Other Compensation	10,400	1,250		11,650
Employee Benefits	350,299	709,556	172,508	1,232,363
Personal Services-Other	4,583			4,583
Total	<u>1,543,043</u>	<u>2,940,215</u>	<u>792,033</u>	<u>5,275,291</u>
Operating Expenses				
Other Services	675,498	470,898	66,240	1,212,636
Supplies & Materials	75,580	235,146	26,265	336,991
Communications	75,760	74,391	14,897	165,048
Travel	205,508	156,351	8,430	370,289
Rent	54,814	110,828	34,000	199,642
Utilities	8,003			8,003
Repair & Maintenance	10,716	78,833	2,220	91,769
Other Expenses	3,506,970	109,761	16,254	3,632,985
Total	<u>4,612,849</u>	<u>1,236,208</u>	<u>168,306</u>	<u>6,017,363</u>
Equipment & Intangible Assets				
Equipment	18,639	93,519		112,158
Total	<u>18,639</u>	<u>93,519</u>		<u>112,158</u>
Grants				
From State Sources	2,378,516	2,018,245		4,396,761
From Federal Sources	933,443	934,684		1,868,127
From Other Sources	(206,526)			(206,526)
Total	<u>3,105,433</u>	<u>2,952,929</u>		<u>6,058,362</u>
Benefits & Claims				
From State Sources	1,576,234			1,576,234
Total	<u>1,576,234</u>			<u>1,576,234</u>
Transfers				
Accounting Entity Transfers	50,009	425,967	2,658	478,634
Intra-Entity Expense		202,777		202,777
Total	<u>50,009</u>	<u>628,744</u>	<u>2,658</u>	<u>681,411</u>
Debt Service				
Capital Leases		2,282		2,282
Total		<u>2,282</u>		<u>2,282</u>
Total Expenditures & Transfers-Out	<u>\$ 10,906,207</u>	<u>\$ 7,853,897</u>	<u>\$ 962,997</u>	<u>\$ 19,723,101</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,308,088	\$ 249,767	\$ 88,273	\$ 1,646,128
State Special Revenue Fund	3,719,989	5,485,315	644,661	9,849,965
Federal Special Revenue Fund	1,233,708	1,862,648	164,894	3,261,250
Enterprise Fund	4,644,422	575	65,169	4,710,166
Permanent Fund		255,592		255,592
Total Expenditures & Transfers-Out	<u>10,906,207</u>	<u>7,853,897</u>	<u>962,997</u>	<u>19,723,101</u>
Less: Nonbudgeted Expenditures & Transfers-Out	2,597,595	649,767		3,247,362
Prior Year Expenditures & Transfers-Out Adjustments	62,738	(17,168)	159	45,729
Actual Budgeted Expenditures & Transfers-Out	<u>8,245,874</u>	<u>7,221,298</u>	<u>962,838</u>	<u>16,430,010</u>
Budget Authority	14,997,526	10,250,314	1,340,796	26,588,636
Unspent Budget Authority	<u>\$ 6,751,652</u>	<u>\$ 3,029,016</u>	<u>\$ 377,958</u>	<u>\$ 10,158,626</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 239,460	\$ 35,725	\$ 104,123	\$ 379,308
State Special Revenue Fund	1,084,712	314,006	1,095	1,399,813
Federal Special Revenue Fund	58,136	2,678,705	272,740	3,009,581
Enterprise Fund	5,369,344	580		5,369,924
Unspent Budget Authority	<u>\$ 6,751,652</u>	<u>\$ 3,029,016</u>	<u>\$ 377,958</u>	<u>\$ 10,158,626</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agricultural Development Division	Agricultural Sciences Division	Central Services Division	Total
Personal Services				
Salaries	\$ 997,125	\$ 2,010,858	\$ 561,252	\$ 3,569,235
Hourly Wages	79,888	62,376		142,264
Other Compensation	10,175	1,550		11,725
Employee Benefits	318,870	649,090	162,524	1,130,484
Personal Services-Other	2,473			2,473
Total	1,408,531	2,723,874	723,776	4,856,181
Operating Expenses				
Other Services	540,660	448,260	108,431	1,097,351
Supplies & Materials	90,176	308,060	31,388	429,624
Communications	84,012	88,748	14,768	187,528
Travel	177,903	163,926	27,316	369,145
Rent	58,915	90,853	33,495	183,263
Utilities	8,871			8,871
Repair & Maintenance	31,611	59,987	2,408	94,006
Other Expenses	3,345,168	77,699	46,558	3,469,425
Total	4,337,316	1,237,533	264,364	5,839,213
Equipment & Intangible Assets				
Equipment	92,940	277,379		370,319
Intangible Assets		54,000		54,000
Total	92,940	331,379		424,319
Grants				
From State Sources	1,608,995	1,948,659		3,557,654
From Federal Sources		1,609,877		1,609,877
From Other Sources	(404,926)			(404,926)
Total	1,204,069	3,558,536		4,762,605
Benefits & Claims				
From State Sources	2,442,486			2,442,486
Total	2,442,486			2,442,486
Transfers				
Accounting Entity Transfers	69,039	285,513		354,552
Intra-Entity Expense		220,527		220,527
Total	69,039	506,040		575,079
Debt Service				
Capital Leases		2,282		2,282
Total		2,282		2,282
Total Expenditures & Transfers-Out	\$ 9,554,381	\$ 8,359,644	\$ 988,140	\$ 18,902,165

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 1,514,801	\$ 266,247	\$ 151,270	\$ 1,932,318
State Special Revenue Fund	3,382,296	5,309,502	620,105	9,311,903
Federal Special Revenue Fund	23,984	2,555,933	152,933	2,732,850
Enterprise Fund	4,633,300	617	63,832	4,697,749
Permanent Fund		227,345		227,345
Total Expenditures & Transfers-Out	9,554,381	8,359,644	988,140	18,902,165
Less: Nonbudgeted Expenditures & Transfers-Out	1,618,597	520,158		2,138,755
Prior Year Expenditures & Transfers-Out Adjustments	(18,378)	5,167	(39)	(13,250)
Actual Budgeted Expenditures & Transfers-Out	7,954,162	7,834,319	988,179	16,776,660
Budget Authority	13,424,412	11,686,251	1,375,685	26,486,348
Unspent Budget Authority	\$ 5,470,250	\$ 3,851,932	\$ 387,506	\$ 9,709,687

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 12,730	\$ 145,179	\$ 97,546	\$ 255,455
State Special Revenue Fund	982,730	347,369	9,891	1,339,990
Federal Special Revenue Fund	107,263	3,358,846	280,069	3,746,178
Enterprise Fund	4,367,527	538		4,368,065
Unspent Budget Authority	\$ 5,470,250	\$ 3,851,932	\$ 387,506	\$ 9,709,688

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Department of Agriculture

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2007

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Permanent) in applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Private-Purpose Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include activities related to registration and inspection of fertilizers and feed grain inspections; wheat, barley, and alfalfa seed market

research and promotion; Growth Through Agriculture investments and noxious weed management projects.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Agricultural Sciences, Agricultural Development, and Central Services.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department uses this fund to account for the Noxious Weed Management Trust activity.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds include the Hail Insurance, Alfalfa Leaf-Cutting Bee, and Beginning Farm Loan Programs.

Fiduciary Fund Category

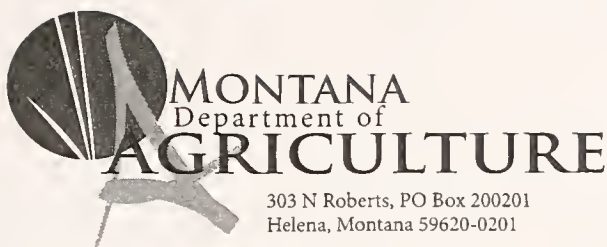
- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency fund account for commercial pesticide applicator certificates of deposit.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2006, and June 30, 2007.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue funds include entries generated by SABHRS (Statewide Accounting, Budgeting, and Human Resource System) to reflect the flow of resources within individual funds shared by separate agencies.



Brian Schweitzer
Governor

Ron de Yong
Director

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September 7, 2007

Tori Hunthausen
Chief Deputy Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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SEP 07 2007

LEGISLATIVE AUDIT DIV.

Dear Mrs. Hunthausen:

Thank you for the opportunity to review and comment on the financial-compliance audit of the Montana Department of Agriculture for the two fiscal years ended June 30, 2007. The professionalism displayed by your audit staff while conducting the audit was greatly appreciated.

An improper allocation of hail insurance premiums in crop year 2005 resulted in a qualified opinion. Hail insurance premiums have been properly allocated for crop years 2006 and 2007. The department has adopted fiscal year end processes to ensure future allocations are completed correctly.

As the new director, I am pleased with the audit and the fact that no recommendations were made to the department. I look forward to working with you in the future.

Sincerely,

Ron de Yong
Director

